

For release at 10:30 a.m.
Central Daylight Time
October 3, 1962

NO SUBSTITUTE FOR BRAINS

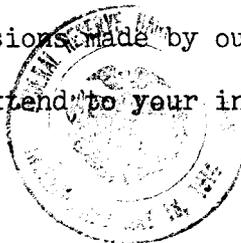
Remarks of Harold King
Member of the Board of Governors
of the
Federal Reserve System
before the
65th Annual Convention of the
National Hardwood Lumber Association
Chicago, Illinois
October 3, 1962

NO SUBSTITUTE FOR BRAINS

I feel very much at home today in the company of hardwood lumbermen. My earliest childhood memories include my father's constant talk about the sawmill and the timber. His nightly telephone talk to the woods superintendent was a standard item in our household affairs. And I shall forever be grateful to him for instilling in me a basic devotion to justice. He also taught me that a business will not run itself. To operate one most successfully requires enthusiasm, hard work, and brains. Folks who stay in the hardwood lumber business have to have these qualities. Because I know this is so, I also know that you are the best because you have survived. I am honored -- even awed -- to be privileged to speak to you.

Even so, I know I can proceed with the assurance that both you and I could not escape a fairly good education in economics as a result of our association with the hardwood lumber industry. Costs to us are not just a set of figures which we can change simply because we do not like them. Costs are very real, and we cannot control them with a pencil eraser any more than we can increase profits by changing a decimal point.

Some people think that I am a banker because of my present job. But I am not a banker. In fact, only one of the seven members of the Board is a banker in the general sense of the word. However, it seems reasonable for me to assume that all of you hope I will qualify as a good member of the Board of Governors of the Federal Reserve System, simply because the decisions made by our Board do not affect banks only, but have effects that extend to your individual businesses. I still



call myself a lumberman and I hope that I still think like a lumberman, even though I am no longer directly engaged in the industry.

One of my friends suggested I talk today about the future prospects of the national economy. My answer was that that would be completely unfair to you, my audience. For even though our institution is recognized as the best gatherer of statistical and economic information in this country -- possibly in the world -- we still do not have a crystal ball that reveals all. No matter how much information we have about what has happened and what is happening, we have to make human judgments which are not infallible. Consequently, for me to try to predict the future would be to render you a disservice. Since my inclination is to think more about the future than cling to memories of yesterday, I am compelled to choose either a subject that deals with the past, which is of secondary interest to me, or to talk about my main interest, the future, in a careful manner. Thus, if I choose the future as my subject and am foreclosed from predictions, then the alternative is to talk of methods that might bring our most optimistic hopes to fruition. The direction I will take today will be to discuss briefly some of the purposes and functions of the Federal Reserve System as they exist today, and why we hope that what we are doing will, in some small way at least, increase the odds that we shall have a healthy growing economy -- then turn to some more specific thoughts on the future of the hardwood lumber industry.

The Federal Reserve System was established by passage of the Federal Reserve Act in 1913. Congress became acutely aware of the need for a central bank during the money panic of 1907. The purpose of the

Federal Reserve Act was, and here are the words of the Act, "To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

This was a tremendously ambitious undertaking, for therein the architects of this legislation intended to retain the many benefits accruing to a nation that maintains a currency of integrity while at the same time hoping to minimize the rigors and chaos that an inelastic currency had produced.

It has always seemed a little ironic to me that while we who serve on the Board of Governors are usually dedicated devotees of free markets, we actually are charged by law to influence to some extent the market for money and credit.

The main method which is employed to influence the money and credit markets is through the purchase and sale of government securities. Today, the Federal Reserve's portfolio of U.S. government securities is near \$30 billion. Congress gave the Federal Reserve a wide degree of latitude in regard to its discretionary purchase of government securities. The important point here is that the Federal Reserve creates the funds for such purchases simply by drawing a check on itself. Obviously, this is a huge responsibility to place on any group. You can be assured that this responsibility is being met with enthusiasm, hard work, and brains -- the same qualities needed in the lumber industry. If this sounds a little immodest, let me add that I am referring to my colleagues.

No doubt some are unhappy that a Federal Reserve even exists because they believe there should be no influence other than market forces exerted on the money market. Others are equally unhappy because they believe we do not exercise enough influence. These open market operations which affect the availability of bank reserves are the centerpiece of Federal Reserve efforts in the field of monetary policy.

The Board has a number of other duties also. Acquisition of bank stock by bank holding companies must come before us for approval. Also, certain bank mergers are assigned to us for decision. Some of these decisions are difficult ones. The public interest is the paramount consideration and, as you well know, there is a wide divergence of opinion as to what is or is not in the public interest. These decisions tend to form a framework into which the future development of the commercial banking system is channeled.

Our duties also require rather extensive coordination and general supervision over the 12 Federal Reserve Banks, 24 branch banks, and the 20,000 employees of the Federal Reserve. The work of these employees facilitates the flow of funds through the commercial banking system. Even though the high quality of their performance is seldom given any publicity and these services are taken for granted, the personnel who guide development in this field discharge their duties with a zeal which deserves the admiration and gratitude of all of us.

But the fundamental function of the System is to see that money and credit are available in such quantities as to meet the varying needs of commerce, industry, and agriculture. Over the years it has probably been an awareness of this basic responsibility which prompts

Presidents of the United States to select men for appointment to the Board who have a general knowledge of farming, business, and government, as well as banking. If we do our job well, it should mean that credit conditions in the country as a whole are such as to encourage sound business expansion and reasonably full employment of existing industrial capacity. But note two things: First, this does not mean that we can or should make credit so easy that anyone can borrow all he wants at any price that appeals to him. Such an approach would only result in many undertakings that were doomed to failure from the outset, the collapse of which would carry down many soundly conceived projects at the same time. Second, note that I was careful to say that monetary conditions should be such as to encourage development of our economy, not that they could cause it to come about. The Federal Reserve should certainly bear its share of the blame for any mistakes it makes, but I am sure you gentlemen realize, perhaps better than many other businessmen, that no monetary policy can produce prosperity or even stability if other maladjustments are present.

It would be possible to talk several hours about the Federal Reserve -- not because I am enchanted by it, but because my intention is to do my part to insure that it functions according to the dreams of its founders.

Suppose we turn now to a subject nearer and dearer to your hearts: the hardwood lumber industry.

It is undoubtedly a fair statement to say that the lumber industry as a whole has about as much experience with the "cost-price squeeze" as any other industry. The size and scope of our own family-operated

business has changed drastically during recent years. Perhaps you are wondering about now if I intend to "sing the blues" for the next few minutes. Well, the answer is "no." But I did want to tell you that I understand and have had just about all the aches and pains of hardwood lumbermen.

Taking inventory is such a routine affair in a lumber business that it has no glamour. But let us take a few minutes to take stock of our advantages in the world today. My suggestion is that we center our attention on advantages only because it is safe to bet that you need not be urged to recognize the disadvantages. We all think about them enough.

The fact is that hardwood lumber is sold on a free market -- one of the greatest free markets in America. Though it is regrettable to see casualties in our industry, this is one price the industry must pay to remain a free market. You can't hold up prices artificially even if you might want to on occasion. If you could, you would succeed in putting a few more dollars in the bank for a few years. But you would also be giving more pricing headroom to competing products, which quite naturally intend to put you out of business. Because of the great number and diversity of hardwood producers, you need have no worry that pricing policies could be controlled by a few people. This is a distinct advantage as far as perpetuation of the industry is concerned.

Some other industries have either lost or are in the process of losing their markets -- domestic and international -- partly as a result of attempts to hold prices of their commodity above the price that resulted from the forces of supply and demand. This may look tempting, but history has proved it is one sure way to help send an industry

to its final resting place before its time. Now, I certainly do not mean that your sales department should not get every dollar for your product that can be gotten. But the extra dollars will come from extra service, dependability, and quality of the products that you afford your customers.

Closer cooperation between the mills and customers could blunt the alternating edges of shortage and oversupply of first one specie and then another. At least one of your regional associations has been working in this direction for the last several months. Work in this area offers hope of a more stable market. Those who contribute to this effort are due appreciation by both suppliers and users of hardwoods.

Another big advantage of the hardwood industry stems from the wide scope of both production and use of its products. Your Association's Board of Directors includes members from 24 states and two provinces in Canada. NHLA gives you a broad front and an effective voice which you are free to use in whatever manner you elect. Continued development of your Association will help assure the industry a fair chance at markets in the future. And, of course, you get more for your total research dollars than would be possible if all research was undertaken on an individual basis.

The hardwood business will endure, though it will undoubtedly change greatly in the years ahead. While some of the changes will be dictated by the available timber supply, some of the changes will be shaped by your efforts toward expansion of markets. This is where the commodity known as brains enters the picture. If each company represented

here today would, during the next year, assume the responsibility to develop one new use for any hardwood, the impact on the industry would be tremendous. If you do not originate the new ideas for use of hardwoods, your customers will have to do the job. The main objection to this is that they don't know nearly as much as you about the characteristics of the different species. Many hardwood operations have been successful in the past even though they made little effort to develop new ideas. Today, however, the pressure of competition demands that the industry place high priority on new ideas if it is to reach its optimum position in the national economy.

America has originated many good ideas, but one of the poorer ones is the idea that we are entitled to a life of ease simply because we live in the United States. From my own reading of the documents that founded our Nation, I cannot find any reference that guarantees an easy way of life. But there is the suggestion that there will be opportunity. I believe there is opportunity in America because opportunity always exists in a free society. In fact, it could be suggested that the two words "opportunity" and "freedom" are synonyms. If we can agree that opportunity always exists in a free society, I will ask you to go one step further with me and agree that if something is lacking today, it is not opportunity. Instead, could it be that it is our spirit which harnesses opportunity that needs strengthening?

I feel sure there is no one who is exempt from occasional periods when the spirit wanes. Earlier I said I like to think of the future, but I would not be surprised if continuous thought of the future is the very thing that weighs our spirit down. Apparently, there are

several methods that can help revive a sagging spirit. At times, rest is the main necessity. At other times, reading or some other form of recreation can give us the boost we need. But I believe the most dependable remedy is to occasionally focus our thoughts on the wonderful pioneers who conceived of a combination of free enterprise and government here in America which has produced more of the good things in life -- food, clothing, and shelter -- for more of her people than any other system before or since. Make no mistake about it. It is the combination that has provided the foundation for economic progress.

When I said that free enterprise and government were combined, I did not suggest that it would be wise to combine them in a haphazard manner. They should be combined in such a way that a balance between the two is attained on the "scales of incentive." Incentive is the fulcrum under the free market system, and constant attention is necessary if we are to keep the mechanism in working order. The effectiveness of different forms of incentive seems to vary from one generation to another, if not more frequently, thereby establishing a need for continued alertness as to the form of incentive that will produce the desired results. In my own experience in business I was amazed at the accomplishments of my employees as long as I kept a few drops of oil on the fulcrum of incentive. So I would suggest that one of our greatest responsibilities today is to assure the correct emphasis on the role of incentive.

This is but one of the responsibilities which you must face as leaders in the hardwood industry. As much, if not more, than in any other area of business our industry needs the calculated use of incentive

if it is to attract and hold the kind of men who will carry it forward in the future. Because effective use of the incentive system makes no commitment of reward for poor performance but does make a commitment for efficient effort, there is an immediate increase in the chances for success of your enterprise.' The provision of incentive is a major responsibility which rests on you, and your pursuit of the appropriate types of incentive will make a contribution to the further growth of the industry.

Yes, the hardwood industry will endure, and you are the people who will shape its future. Your past record is strong testimony that you are qualified for the task. Enthusiasm, hard work, and brains will still pay off.